MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

DII5018 – INTRODUCTION TO INVESTMENT

(For Diploma Students Only)

15 MARCH 2018
2.30 pm – 4.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TEN (10)** pages only excluding the cover page and formula appendix.
2. Answer **ALL** questions.
3. Answers for Section A and B should be shaded on the OMR sheet provided.
4. For Section C, please write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark) Answers should be shaded on the OMR sheets provided.

1. Real assets in the economy include all but which one of the following?

   A. Land
   B. Buildings
   C. Consumer durables
   D. Common stock

2. Which one of the following would be the **MOST** liquid investment?

   A. Stock.
   B. Fixed deposit.
   C. Money market mutual fund.
   D. Real estate.

3. Investors trade previously issued securities in the _____ market(s).

   A. primary
   B. secondary
   C. primary and secondary
   D. derivatives

4. New issues of securities are sold in the _____ market(s).

   A. primary
   B. secondary
   C. over the counter
   D. primary and secondary

5. _____ specialize in helping companies raise capital by selling securities.

   A. Commercial bankers
   B. Investment bankers
   C. Investment issuers
   D. Credit raters

Continued ...

6. Security selection refers to _____.

   A. choosing which securities to hold based on their valuation
   B. investing only in "safe" securities
   C. the allocation of assets into broad asset classes
   D. top-down analysis

7. Money market securities _____.

   A. are short term
   B. are highly marketable
   C. are generally very low risk
   D. are short term, highly marketable, and generally very low risk

8. Which of the following refers to indirect investment?

   A. Dec invests in an 8 percent, 10 year bond.
   B. Kathir purchases 1,000 units of CIMB stock.
   C. Sara buys 1,000 units of a mutual fund.
   D. Surendran involves in future contract.

9. Stock represents funds collected in exchange for _____.

   A. dividend income and the repayment of the loan principal.
   B. dividend income and an ownership interest in the firm.
   C. interest income and a partial ownership interest in the firm.
   D. interest income and the repayment of the loan principal.

10. According to the investor life cycle, the age range for income oriented investor is between _____.

    A. 1-20.
    B. 20-45.
    C. 45-60.
    D. 60 and above.

11. On a net basis, funds in the financial markets are generally supplied by:

    A. Public University.
    B. Maybank.
    C. Ng Kim Lun.
    D. Malaysia Government.

Continued ...

12. A _____ is a person who acts as an intermediary between a buyer or seller in the market.

A. broker
B. specialist
C. dealer
D. registered competitive trader

13. Which one of the following statements about foreign investments is **TRUE**?

A. In general, major foreign markets always tend to underperform the Malaysia market.
B. Investing in foreign markets may involve specific risks not encountered with domestic securities.
C. Investing in foreign markets will always produce higher returns because of exchange rate fluctuations.
D. Foreign markets include equity securities only.

14. Which one of the following statements concerning the primary market is **CORRECT**?

A. The first public sale of a company's stock is called an IPO.
B. A transaction in the primary market is between two private stockholders.
C. The first public sale of a company's stock in the primary market is called a seasoned new issue.
D. A rights offering is a direct sale of stock to an institution that participates in the primary market.

15. Which of the following explain the mutual fund?

A. Portfolio of stocks, bonds, and other securities created by pooling the funds of many different investors.
B. Funds that pool resources from different investors, but usually have higher minimum investments and are less regulated than mutual funds.
C. Conservative investments with lives of 1 year or less.
D. Represents an ownership share of a corporation.

16. How do we describe a market where share prices are falling?

A. Baboon market.
B. Bull market.
C. Badger market.
D. Bear market.

Continued ...

17. Type of risk in which payments are interrupted by intervention of foreign governments is considered as _____.

A. channel risk
B. globalization risk
C. state risk
D. country risk

18. Legal document required by Securities Exchange Commission stating associated risks and detailed description of issues is classified as _____.

A. prospectus
B. stated document
C. risk detailed document
D. exchange commission document

19. Reduction of risk by holding large number of securities in portfolio of assets is classified as _____ .

A. diversification
B. selling ability
C. reduction ability
D. director ability

20. Which of the following would be used to stop losses from a short sale? Assume you short sell at the current market price.

A. A stop sell order with the stop price set below the current market price.
B. A good-till-canceled market sell order.
C. A stop buy order with the stop price set below the current market price.
D. A stop buy order with the stop price set above the current market price.

21. Gains from portfolio diversification are largest when _____.

A. the securities are perfectly positively correlated.
B. the securities are not correlated.
C. the securities are perfectly negatively correlated.
D. need more information.

Continued ...

22. Borrowing a security and selling it with the hope of buying it back later at a cheaper price is called _____.

A. leveraging.
B. short selling.
C. long purchase.
D. gambling.

23. "Specify target date and risk tolerance for each goal", falls under which step of investing?

A. Step 3
B. Step 2
C. Step 5
D. Step 6

24. Mr. Siva, currently 57 years old, should choose _____ if he wants to make an investment.

A. preferred stocks
B. government bonds
C. quality corporate bonds
D. common stocks

25. Which one of the following statements about foreign investments is **TRUE**?

A. In general, major foreign markets always tend to underperform the Malaysia market.
B. Investing in foreign markets may involve specific risks not encountered with domestic securities.
C. Investing in foreign markets will always produce higher returns because of exchange rate fluctuations.
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26. Whitley bought 100 shares of stock at a price of RM24 a share. He used her 70% margin account to make the purchase. Whitley sold his stock after a year for RM20 a share. Ignoring margin interest and trading costs, what is Whitley's return on investor's equity for this investment?

A. -17%.
B. -24%
C. 24%
D. -56%

Continued ...

27. Wong Nan purchased 200 shares of stock at RM19 using his 70% margin account. His maintenance margin is 40%. Wong Nan has no other securities in his account. At what price will Wong Nan receive a margin call?

A. RM3.80
B. RM5.70
C. RM9.50
D. RM13.30

28. An investor purchases 400 shares of stock at a price of RM20 per share. The initial margin requirement is 70%. How much equity capital must the investor provide for this margin transaction?

A. RM 10,000
B. RM 7,200
C. RM 2,400
D. RM 5,600

29. Assume you purchased 200 shares of GE common stock on margin at RM70 per share from your broker. If the initial margin is 55%, how much did you borrow from the broker?

A. RM6,000
B. RM4,000
C. RM7,700
D. RM6,300

30. You want to purchase XON stock at RM60 from your broker using as little of your own money as possible. If initial margin is 50% and you have RM3000 to invest, how many shares can you buy?

A. 100 shares
B. 200 shares
C. 50 shares
D. 500 shares

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SECTION B: TRUE OR FALSE QUESTIONS (each question carries 1 mark). Answers should be shaded on the OMR sheets provided. Shade A for True, and B for False answer.

31. Securities are investments issued by firms, governments, or other organizations that represent a financial claim on the resources of the issuer.
32. An indirect investment is an investment in a collection of securities or properties managed by professional investor.
33. Equity is simply a loan that obligate the borrower to make periodic interest payments and to repay the full amount of the loan by some future date.
34. Financial markets are organizations, such as banks and insurance companies, that pool the savings of governments, business, and individuals and use those funds to make loans and to invest in securities.
35. One of the key features of the dealer market is that it has centralized trading floors.
36. In general, investors experience higher returns on common stock investments during a bull market.
37. The long purchase is a transaction in which investors buy securities in the hope that they will increase in value and be sold at a later date for profit.
38. Benefit of margin trading is that it allows for greater diversification of security holdings because investors can spread their limited capital over a larger number of investments.
39. Short-term investments are generally very risky.
40. Most old investors in their sixties and seventies prefer growth-oriented investments that stress capital gains rather than current income.

Continued ...

SECTION C: STRUCTURED QUESTIONS. Answers should be written on the answer booklet provided.

QUESTION 1

a) Mr. Matthew is considering two investment alternatives. The first is a stock that pays quarterly dividends of RM1.25 per share and currently trading at RM38 per share. The second is a stock that pays quarterly dividends of RM1.85 and is trading at RM44 per share. Mr. Matthew expects to sell the stocks after 1 year, in which first and second stock shall be selling at RM47 and RM42 respectively.

Which stock option will provide Mr. Matthew the better annualized holding period return, if he invested in 100 units of share? Justify your answer. (11 marks)

b) Define risk-return trade off and list down any **SIX (6)** sources of risks that is relevant while making an investment. (4 marks)

(Total 15 marks)

QUESTION 2

An investor is considering the purchase of two alternatives of bond which are :

	Bond A	Bond B
Coupon rate	8%	10%
Par Value	RM1,000	RM1,000
Interest payment	Annually	Semiannually
Trading price	RM 1,215	RM 937
Years to maturity	10	15
Years to call	7	8

a) Calculate current yield for both type of bond. (4 marks)

b) If the required current yield is 8 percent which bond would the investor invest? Explain your answer. (2 marks)

c) Which bond has the higher YTM? (9 marks)

(Total 15 marks)

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QUESTION 3

Given the extract information of Daffy Duck Sdn. Bhd for the year ended 2015.

	RM
Total Current Assets	1,500,000
Fixed Assets	1,600,000
Interest Expense	160,000
Total Current Liabilities	1,000,000
Account Payable	700,000
Sales	4,400,000
Account Receivable	500,000
Long-Term Debt	1,000,000
Inventory	800,000
Net Profit Margin	48.68%

Calculate the following ratios :

a) Current ratio (2 marks)
b) Total asset turnover (2 marks)
c) Debt-equity ratio (4 marks)
d) Net Profit (2 marks)
e) Return on Asset (2.5 marks)
f) Return on Equity (2.5 marks)

(Total 15 marks)

Continued ...

QUESTION 4

Your manager provides the following information to you. In order to help your manager, you are required to answer the following questions.

	Simon Corp.	Niki Corp.	Anne Corp.
Shares Outstanding	35,000	38,000	43,000
Fund Asset (RM)	55,000	73,450	99,000
Fund Liabilities (RM)	34,500	42,350	39,950
Expected Price (RM)	RM0.39	RM1.05	RM1.80

a) Calculate the net asset value (NAV) for each company. (3.5 marks)

b) If your manager plans to invest RM5,000 , compute the total units of each company that he could possibly have. (3 marks)

c) If your manager requires 30 percent return for the mutual fund invested, which of the company should you recommend to your manager by using the holding period return method. Justify your answer. (8.5 marks)

(Total 15 marks)

[TOTAL 60 MARKS]

End of Page.

APPENDIX:

$$\text{Margin} = \frac{\text{Value of securities} - \text{Debit balance}}{\text{Value of securities}} = \frac{V - D}{V}$$

$$\text{Return on invested capital from a margin transaction} = \frac{\text{Total current income received} - \text{Total interest paid on margin loan} + \text{Market value of securities at sale} - \text{Market value of securities at purchase}}{\text{Amount of equity at purchase}}$$

$$\text{Required return on investment } j = \text{Real rate of return} + \text{Expected inflation premium} + \text{Risk premium for investment } j$$

$$\text{Risk-free rate} = \text{Real rate of return} + \text{Expected inflation premium}$$

$$\text{Holding period return} = \frac{\text{Income during period} + \text{Capital gain (or loss) during period}}{\text{Beginning investment value}}$$

$$\text{Capital gain (or loss) during period} = \text{Ending investment value} - \text{Beginning investment value}$$

$$r_p = (w_1 \times r_1) + (w_2 \times r_2) + \ldots + (w_n \times r_n)$$

$$bP = (w1 \times b1) + (w2 \times b2) + \ldots + (wn \times bn)$$

Required return = risk free rate + [beta (market return – risk free rate)]

$$\text{Standard deviation} = s_p = \sqrt{\left(\sum_{i=1}^{n}(r_p - r)^2\right) \div (n-1)}$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Accounts receivable turnover} = \frac{\text{Annual sales}}{\text{Accounts receivable}}$$

$$\text{Inventory turnover} = \frac{\text{Annual sales}}{\text{Inventory}}$$

$$\text{Total asset turnover} = \frac{\text{Annual sales}}{\text{Total assets}}$$

$$\text{Debt-equity ratio} = \frac{\text{Long-term debt}}{\text{Stockholders' equity}}$$

$$\text{Times interest earned} = \frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$$

$$\text{Net profit margin} = \frac{\text{Net profit after taxes}}{\text{Total revenues}}$$

$$\text{ROA} = \frac{\text{Net profit after taxes}}{\text{Total assets}}$$

$$\text{ROE} = \frac{\text{Net profit after taxes}}{\text{Stockholders' equity}}$$

$$\text{EPS} = \frac{\text{Net profit after taxes} - \text{Preferred dividends}}{\text{Number of shares of common stock outstanding}}$$

$$\text{Dividend yield} = \frac{\text{Annual dividends received per share}}{\text{Current market price of the stock}}$$

$$\text{Dividend payout ratio} = \frac{\text{Dividends per share}}{\text{Earnings per share}}$$

$$\text{P/E} = \frac{\text{Net price of common stock}}{\text{EPS}}$$

$$\text{Dividends per share} = \frac{\text{Annual dividends paid to common stock}}{\text{Number of common shares outstanding}}$$

$$\text{Book value per share} = \frac{\text{Common stockholders' equity}}{\text{Number of common shares outstanding}}$$

$$\text{Price-to-book-value} = \frac{\text{Market price of common stock}}{\text{Book value per share}}$$

$$\text{PEG Ratio} = \frac{\text{Stock's P/E ratio}}{\text{3–5 years growth rate in earnings}}$$

$$\text{Conversion Equivalent} = \frac{\text{Current market price of the convertible bond}}{\text{Conversion ratio}}$$

Conversion Premium (in RM) = Current market price of the convertible bond - Conversion value
Conversion Premium (in %) = $\frac{\text{Conversion Premium (in RM)}}{\text{Conversion Value}}$
$\text{Yield to Call} = \frac{\text{Annual Interest} + \frac{\text{Call Price} - \text{Market Price}}{\text{Number of Years to Call}}}{\frac{\text{Call Price} + \text{Market Price}}{2}}$
$\text{Yield to Maturity} = \frac{\text{Annual Interest} + \frac{\text{Par Value} - \text{Market Price}}{\text{Number of Years to Maturity}}}{\frac{\text{Par Value} + \text{Market Price}}{2}}$
Current yield = $\frac{\text{Annual interest income}}{\text{Current market price of the bond}}$